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ABSTRACT

This guide provides Federal income tax information for refugees and their sponsors. Issues covered in a question and answer format include: (1) the tax status of refugees; (2) the criteria for declaring a refugee a dependent; (3) deductions for contributions to refugees or organizations that support them; (4) the distinction between resident and non-resident alien for tax purposes; (5) tax information for refugees operating a small business; and (6) general information regarding social security cards, tax forms, deductions, and tax eligibility. (APM)

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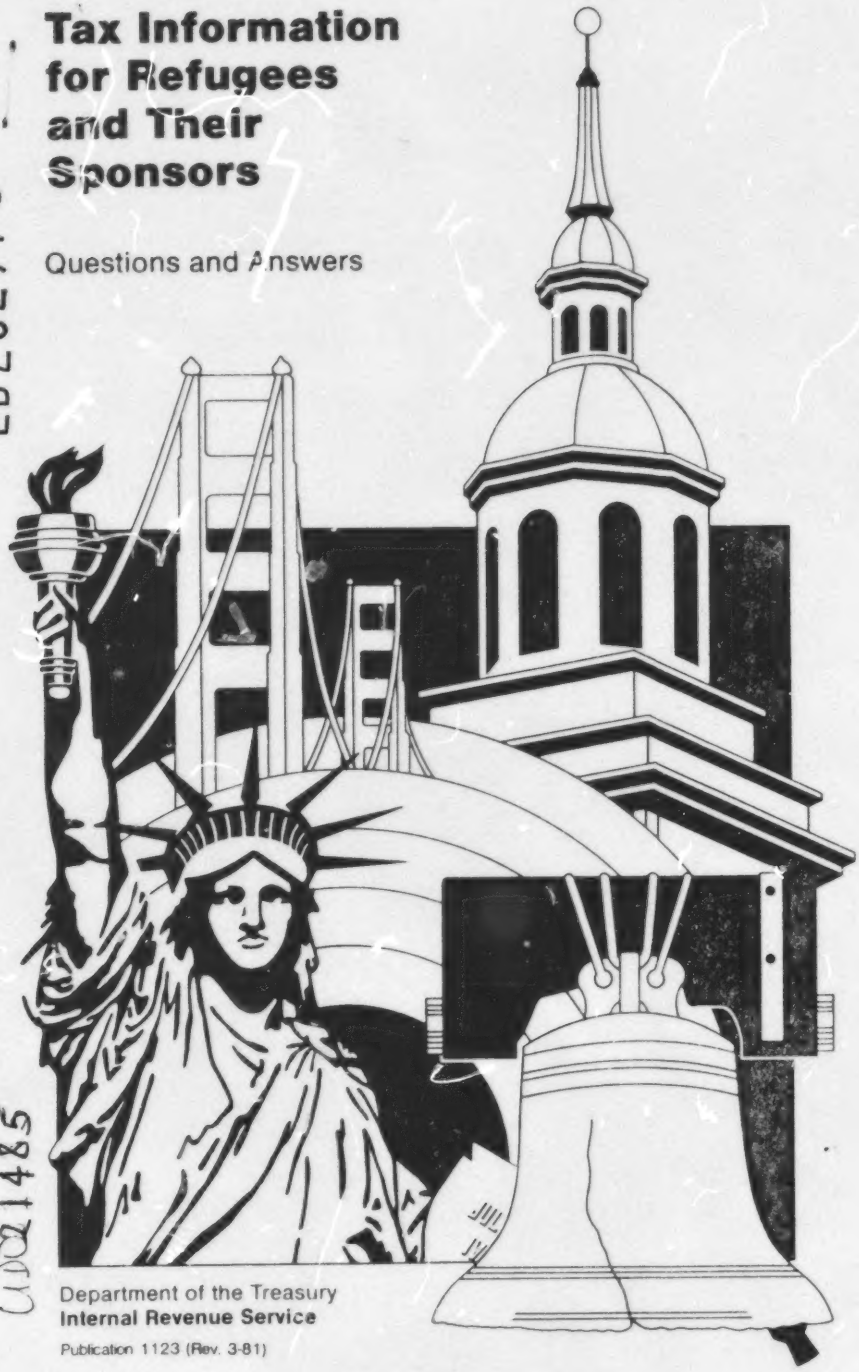
Tax Information for Refugees and Their Sponsors

Questions and Answers



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42 If I need help in preparing my annual Federal income tax returns, will IRS help me?

Answer—Yes, IRS has offices throughout the U.S. where employees are available to answer your questions. For your convenience, you may wish to call the Tax Information number listed in your local telephone directory.

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Part 1—Sponsors

Questions and Answers

General Information

1 As a sponsor, I have taken an unrelated refugee into my house and I am furnishing the refugee with food, shelter, clothing, and medical services. May I claim the refugee as a dependent on my income tax return?

Answer—If the refugee (1) lived as a member of your household for the entire calendar year, (2) had gross income for that year of less than $1,000, (3) did not file a joint return with his or her spouse (unless neither is required to file a return except to get a refund of tax withheld), and (4) you furnished over one-half of the refugees's total support for the calendar year, you may claim the refugee as a dependent on your Federal income tax return. No dependency deduction will be allowed unless all four tests are met. For example, if the refugee lived as a member of your household for only 7 months of the calendar year, no dependence deduction is allowed even though the other three tests are met.

2 What if the refugee is related to me by marriage?

Answer—If the refugee is your father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, the refugee need not be a member of your household to be claimed as a dependent, providing the other tests listed in the answer to question 1, above, are met.

3 For Federal income tax purposes what is the status of a refugee?

Answer—Refugees who are formally admitted as parolees to the U.S. under the Immigration and Naturalization Act, are considered resident aliens for Federal income tax purposes.

4 What does that mean?

Answer—For Federal income tax purposes, a resident alien is, in general, subject to tax in the same manner as a United States citizen. Thus, a resident alien is taxed on income derived from all sources, including sources outside the United States, in the same manner as a United States citizen. However, special rules apply where an alien changes status in the course of a tax year. These rules affect the use of dependency deductions, use of the optional tax tables, and the filing of joint returns. Additional information on this subject can be obtained by calling the Tax Information number listed in your telephone directory.

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5 Are there any restrictions on employing a member of a refugee family in my place of business?

Answer—No. However, as an employer you should insure that the refugee obtains a social security number, which also serves as the refugee's taxpayer identification number. Applications for social security numbers (Form SS-5) can be obtained at any Social Security Administration office, Post Office, or Internal Revenue Service office. As with any other employee, you should also see that the refugee completes the Employee's Withholding Allowance Certificate (Form W-4). You should also have the refugee complete Form 1078, Certificate of Alien Claiming Residence in the United States.

6 My church has agreed to sponsor a refugee family and has formed a committee to provide the family with housing, food, clothing and any medical needs. Are the church members entitled to any deductions for contributions to the church committee for support of these refugees?

Answer—Since your church is the sponsor of the family, the fair market value of any contributions to the church committee for support of the family are donations to your church in carrying out its charitable activities and are deductible as part of the church member's itemized deductions.

7 Through a charitable resettlement agency, I have taken a refugee family into my home for a temporary period. I provide living quarters in my home for the family, and provide the family with food, clothing, and other incidentals for which I receive no reimbursement. Am I entitled to any charitable contribution deduction for these expenses?

Answer—Yes, if you itemize your deductions. Under the resettlement agency's agreement with the United States Government the resettlement agency has assumed responsibility for the resettlement and care of the refugees. Your out-of-pocket expenses are contributions for the use of the resettlement agency in support of its charitable activities. However, under this arrangement the refugee family members would not be considered your dependents.

8 If I pay the medical expenses for an unrelated refugee, may I claim a medical expense deduction on my income tax return?

Answer—Only if the refugee qualifies as a dependent under tests (1) and (4) set out in the answer to question 1 above and you itemize your deductions.

9 Are contributions to refugees taxable to them?

Answer—If such contributions are in the nature of gifts, they are not taxable. However, on substantial gifts, the donor may be subject to a gift tax.

10 Under the auspices of a national charity, I have agreed to maintain a refugee high school student in my home. Am I entitled to any deductions for the expense of maintaining this student?

Answer—Assuming the student is neither your relative nor your dependent, and there is a written agreement between you and the charitable organization, and you receive no reimbursement toward the expense of maintaining the student, you may deduct, as an itemized deduction, a charitable contribution of up to $50 a month for each month (15 or more days) the student is a full time student in the twelfth or lower grades.

11 I have volunteered to work with refugees. Where can I get help in answering their tax questions?

Answer—Help in answering tax questions can be obtained from the Internal Revenue Service by calling the Tax Information number listed in your telelphone directory.

12 Is a food processing corporation that donates a truckload of canned food to a United States government-sponsored refugee settlement center entitled to a deduction for a charitable contribution?

Answer—Yes, but only with respect to costs and expenses attributable to the contributed property that are incurred in prior taxable years and that are properly reflected in opening inventory for the year of contribution. These costs and expenses must be removed from opening inventory and may not be considered part of cost of goods sold for purposes of determining gross income for the year of contribution.

Part 2—Refugees

Questions and Answers

General Information

1 What is my tax status as a refugee?

If you have been formally admitted as a parolee to the U.S. under the Immigration and Naturalization Act you are considered a resident alien for Federal income tax purposes.

2 As a refugee, how do I know whether I have been formally admitted as a parolee to the U.S.?

Answer—Check your I-94, Arrival and Departure Card, which you were given when you entered the U.S. The card will show whether you have been formally admitted into the U.S. as a parolee. (The I-94 should be attached to your passport.)

3 My formal admission as a refugee has not yet been approved by the Immigration and Naturalization Service. While I am waiting for formal approval, what is my tax status?

Answer—Generally, until you are formally admitted into the U.S. as a parolee under the Immigration and Naturalization Act you are considered a nonresident alien for Federal income tax purposes.

4 What is a nonresident alien?

Answer—In general, a nonresident alien is someone whose stay in the U.S. is limited by the Immigration and Naturalization Service. However, under certain circumstances, an alien whose stay is limited by INS may be treated as a resident alien. For more information please contact the Internal Revenue Service by calling the Tax Information number listed in your telephone directory.

5 For Federal income tax purposes are nonresidents treated any differently than resident aliens?

Answer—Yes. On certain income the rate of tax for nonresident aliens is different than the rate of tax for residents. Also, nonresident aliens are generally only subject to tax on their U.S. source income while resident aliens are subject to tax on their worldwide income.

For more specific information on the tax status of nonresident aliens you should contact the Internal Revenue Service by calling the Tax Information number listed in your telephone directory.

***Note*—The following questions and answers apply only to resident aliens and certain nonresident aliens who are married to either a U.S. citizen or resident alien and have agreed to be treated as U.S. resident aliens and be subject to tax on their worldwide income.**

6 What is a resident alien?

Answer—A resident alien is one who intends to establish residence in the United States and, in general, is subject to tax in the same manner as a United States citizen.

7 What taxes am I liable for?

Answer—The principal Federal taxes for which you may be liable are Federal income and social security taxes. Additionally, you may be liable for a variety of state and local taxes, which may include income taxes, sales and use taxes, and property taxes.

8 What are these taxes used for and how are they collected?

Answer—Federal income taxes provide operating funds for various programs and services furnished by the Federal Government. The principal way of collecting income tax on individuals is from withholding on wages. Social security taxes are imposed on wages and earnings from self-employment and are used to pay pension benefits upon your retirement. They are also used to pay death and disability benefits to the taxpayer, spouse, or dependent children. These taxes are withheld from wages in a manner similar to the way income taxes are withheld.

9 Are wages the only income subject to Federal income and social security taxes?

Answer—No, a resident alien, like a citizen of the United States, is taxed on income from all sources, including income from sources outside the U.S. However, for 1981 social security taxes generally apply to only the first $29,700 of wages or earnings from self-employment.

10 How does withholding of Federal income and social security taxes work?

Answer—First, you will need a social security number, which also serves as your taxpayer identification number. The Social Security Administration uses this number throughout your working life to keep a record of all your earnings on which you pay social security taxes that count toward old-age and survivors insurance. The Internal Revenue Service uses this number as your taxpayer identification number, and it must appear on every tax return, statement, or other document required to be filed with the Internal Revenue Service. Using your social security number, your employer reports and pays to the Internal Revenue Service the amounts of income and social security taxes that are required to be withheld from your wages. Your individual social security number insures that you are given proper credit for the social security and income taxes withheld from your wages.

11 Where do I get a social security number?

Answer—Applications for social security numbers (Form SS-5) can be obtained at any Social Security Administration office, Post Office or Internal Revenue Service office. Instructions for completing the application are contained on the Form, and it should be filed with the nearest Social Security office. After processing this form, which establishes your social security account number, the Social Security Administration will mail you a card indicating your social security account number.

12 What is this card used for?

Answer—This card should be shown to your employer to enable the employer to record your name and number just as they appear on the card. The employer needs this information to report to the Internal Revenue Service the amount of income and social security taxes withheld from your wages. Your employer will use this number when reporting to the government any income or social security taxes withheld from your wages. The use of your social security number insures that you receive proper credit for any income and social security taxes withheld from your wages.

13 In connection with employment, are there any other forms that must be completed for Federal tax purposes?

Answer—When you are first employed, you must complete an Employee's Withholding Allowance Certificate, (Form W-4). This form will be furnished by your employer. You may also file Form 1078, Certificate of Alien Claiming Residence in the United States, which can be obtained by calling the Tax Information number listed in the telephone directory.

14 What are these forms used for?

Answer—Since the Federal income tax system operates on a pay-as-you-go basis, an employer must withhold income tax from each employee's pay in each pay period. The amount of tax to be withheld is based on the number of withholding allowances claimed by the employee. The total number of withholding allowances that may be claimed is based on allowances for dependents, tax credits, itemized deductions, and alimony. The Form W-4 is used to figure the number of withholding allowances an employee may claim, and to claim these allowances. The Form W-4 is also used by an individual who expects no tax liability for the current year and who incurred no tax liability in the previous year to claim exemption from withholding. The Form 1078 shows your employer that you are a resident alien.

15 What does the employer do with the money withheld for Federal income and social security taxes?

Answer—The employer is required to turn these funds over to the Federal Government. Additionally, the employer is required to send

you shortly after the end of the year, a Wage and Tax Statement (Form W-2) that provides a record of the wages you were paid, the amount of Federal income tax withheld, and the amount of social security tax withheld.

16 What do I do with the W-2 I receive from my employer?

Answer—This form provides you with information you must use to complete your income tax return. You must attach a copy of the W-2 to your tax return when it is filed.

17 Under what circumstances am I required to file a Federal income tax return?

Answer—In general you must file a return if:

1) You are a single taxpayer under age 65 and have gross income for the year of $3,300 or more. If you are 65 or older, the requirement is $4,300.
2) You and your spouse are under 65, are eligible to file a joint return, and have combined gross income for the year of $5,400 or more. If one of you is 65 or older, the requirement is $6,400. If both are 65 or older the requirement is $7,400.
3) You are a married person and your spouse files a separate return or you are not eligible to file jointly, and you have gross income for the year of $1,000 or more.
4) You received tips from which social security taxes were not withheld, even if your gross income for the year was less than the above amounts.
5) You were in business for yourself and had net earnings for the year from this self-employment of $400 or more.
6) You received unearned income of $1,000 or more and can be claimed as a dependent on another person's tax return.
7) You received any advance payments of earned income credit from your employer, even though you are not required to file a return under 1-6 above.
8) You must also file a return to obtain a refund of any taxes withheld even though you are not required to file a return under 1-7 above.

18 What is a joint return and are there any advantages to filing one?

Answer—A joint return includes all the income, exemptions, and deductions of both husband and wife, and may result in a lower total tax. A joint return may be filed even if one of the spouses had no income or deductions.

19 When and where must I file a Federal income tax return?

Answer—The due date for filing your Federal income tax return is normally April 15 of the year following the calendar year involved. The return is filed in accordance with the instructions in the form package.

20 What's the purpose of social security taxes?

Answer—Social security taxes go into a special fund administered by the Social Security Administration. These taxes are credited to your account and will provide retirement benefits to you when you reach retirement age, or disability benefits in the event you are disabled and unable to work prior to reaching retirement age. Social security also provides benefits to your spouse and dependent children after your death.

21 Why does the government require withholding of taxes from wages?

Answer—The Federal income tax system is based on a pay-as-you-go plan. Each pay period, an amount is deducted from your paycheck so that at the end of the year the income tax withheld approximates the total amount of tax you owe. Thus, your tax liability is paid by a number of relatively modest installments rather than by one large payment due at the end of the tax year.

22 When I left my native country, I was able to salvage some personal possessions that I sold after reaching the United States. Will I be taxed on this sale?

Answer—The sale is taxable if the amount you received when you sold the items exceeded your cost or other basis in them.

23 When I left my native country, I was forced to leave behind my personal residence and some of my personal belongings. Am I entitled to any tax deduction for these losses?

Answer—No.

24 If I deposit money that I brought from my native country in a savings account in a United States bank, will I be taxed on the interest income from the account?

Answer—Yes, interest income must be included as part of gross income on your tax return.

25 A widowed parent, under 65 years of age, and eldest child work and support three other children of the family. How many exemptions are the parent and eldest child entitled to and who should claim the exemptions?

Answer—Both the parent and the eldest child are entitled to their own personal exemption on their separately filed returns. The one who provides over 50 percent of the support of the three non-working children is entitled to dependency deductions for the children. However, if neither of the working family members individually furnished over half the dependents' total support, but each furnished over 10 percent of such support, they may join with the other person or persons furnishing the remainder of the

support (and qualifying to claim the dependency exemption, except for furnishing over half the support), in agreeing on which one of them shall claim the exemptions by filing Form 2120, Multiple Support Agreement. Under certain circumstances, one of the family may be entitled to file as "head of household."

26 What is a head of household, and are there are any advantages to filing as such?

Answer—In general, in order to qualify as head of household, a taxpayer must be either a United States citizen or a resident alien for the entire tax year, must be unmarried or legally separated under a decree of divorce or separate maintenance on the last day of the tax year or be married to someone who was a nonresident alien at sometime during the year, and must have furnished over half the cost of maintaining a household for the entire year for at least one relative other than a spouse. Head of household tax rates generally fall between the higher tax rates for single taxpayers and the lower tax rates for married persons filing joint returns.

27 Is support money received from family members living outside the United States taxable to refugees living in the United States?

Answer—No.

28 Is money sent to relatives still living outside the U.S. deductible for income tax purposes?

Answer—No.

29 Is money given to another as a gift taxable?

Answer—To the recipient, no. However, on substantial gifts the donor may be subject to a gift tax.

30 Can a working parent claim minor children as dependents? The other parent, an alien, did not come to the United States.

Answer—Yes, providing that the working parent furnishes over one-half of the support of the minor children. Additionally, depending on the marital status, the working parent may also be eligible to file as head of household.

31 I am single and go to college. Must I file a tax return?

Answer—You must file an income tax return if your gross income is $3,300 or more. If you are eligible to be claimed as a dependent of another taxpayer and had unearned income of $1,000 or more you must file an income tax return.

32 Are educational expenses deductible?

Answer—Generally, educational expenses are not deductible. However, if the educational expenses are incurred to meet the

express requirements of your employer, or the requirements of law or regulations, for keeping your salary, status, or employment, and if the requirements imposed serve a bona fide business purpose; or such educational expenses maintain or improve skills required in performing the duties of your present employment or other trade or business, they are deductible.

33 Is there a tax on United States currency brought into the U.S. from a foreign country?

Answer—No.

Tax Information on Operating a Small Business

34 If I decide to open a small business will I have any tax obligations?

Answer—Yes, every person engaged in a business activity is affected by the Federal tax laws. Your primary obligations will be to maintain adequate books and records for the business. The records must be sufficient enough to show the gross income from the business and all expenses of the business. You will use the records to compute how much tax you must pay.

35 What taxes will I have to pay?

Answer—You will have to pay income tax on the net profits from the business and you will also have to pay self-employment (social security) tax. In addition, if you hire employees to work for your business you will be liable for the employer share of FICA (employee social security) tax and for Federal Unemployment Tax. Also, depending on the type of business, you may have to pay certain Federal excise taxes and possibly state and local sales and property taxes.

36 I do plan to hire some employees for the business. Can you tell me more about what I should do as an employer?

Answer—First, you will need an Employer Identification Number (EIN). To get the number, ask any IRS office or Social Security office for an application, Form SS-4. Send it to the IRS Service Center for your state. The address for the Service Center may be obtained by calling the Tax Information Number listed in your local telephone directory. While you are waiting for your number, contact the IRS and tell them that you are planning to open a business and hire employees. The person that you talk with will ask you a few questions about the business and then will put together a special package of information publications and forms to help you. One of the publications will be the Employer's Tax Guide (Circular E).

The Circular E will give you complete information concerning your responsibilities as an employer. In addition to having the with-

holding tables to show you how much tax to withhold from each employee's pay check, the Circular E will provide you with instructions on how to prepare the different tax forms you will be required to file. The kit will also have a copy of Publication 334, Tax Guide for Small Business, which has complete information on the tax aspects of running a business.

37 What are some of the tax forms I will have to file?

Answer—As an employer you will have to file Form 941, which is the quarterly form to report the withheld income and the FICA taxes. Also, Form 940, which is the annual Federal Unemployment Tax return. Some of the forms that you will have to file as a self-employed business person are Schedule C (Form 1040) which is used to report total income and claim all of the expenses of the business and Schedule SE, to compute your own self-employment (social security) tax. You may also have to file Form 1040ES to estimate your income and self-employment tax liability and make quarterly payments of tax to meet that liability.

38 Instead of estimating my taxes and paying them quarterly, can't I just withhold the income and FICA tax every payday like I will for my other employees?

Answer—No. As a self-employed business person, your income is the actual profit from the business, and even if you take money out of the business you do not pay yourself wages. The money you take out of the business is considered a "draw" against the profits.

36 Once I get the publications and my Employer Identification Number, where can I go if I need more help in understanding my responsibilities?

Answer—Contact your IRS office. An employee will sit down with you, at your convenience, and explain your responsibilities and the necessary actions you will have to take.

40 Is there any place I can go to learn about setting up my business?

Answer—Yes. Every IRS office sponsors free tax clinics for small business persons. People who attend the clinic are shown how to keep books and records, how to recognize different tax benefits they are entitled to, how to withhold taxes from employees' wages, and how to prepare the different tax forms that they are required to file.

41 How do I find out when a Small Business Tax Clinic will be held in my area?

Answer—Call the IRS Tax Information number. They will tell you when a clinic is being held and send you the forms to register for it.